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Report of the Organization for Economic Cooperation and Development on service statistics

Note by the Secretary-General

In accordance with a request of the Statistical Commission at its thirty-sixth session,** the Secretary-General has the honour to transmit to the Statistical Commission the report of the Organization for Economic Cooperation and Development on service statistics. The report is for information only.

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* E/CN.3/2006/1.

** See *Official Records of the Economic and Social Council, 2005, Supplement No. 4* (E/2005/24), chap. I.C.

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I. Introduction

1. In March 2005 the United Nations Statistical Commission, noting the reports of the Organization for Economic Cooperation and Development (OECD) and of the Voorburg Group on Service Statistics, took the following actions:

(a) Recognized and credited the conceptual work of the Voorburg Group and agreed that it should continue to develop internationally comparable concepts and methods in the area of service statistics related to the measurement of output and prices and use of classifications;

(b) Reiterated the role of the Voorburg Group with respect to focusing on the submission to the Commission of the work completed on concepts and methods in the area of service statistics;

(c) Agreed that OECD should continue to coordinate international work on service statistics as mandated by the Commission in 2003 and provide a single annual report on the work undertaken by the various expert and city groups on service statistics;

(d) Recommended the creation of an intersecretariat working group on service statistics, which would identify the division of labour among the international organizations regarding the maintenance and update of recommendations, such as those arising out of the work of the Voorburg Group, and knowledge transfer in the area of service statistics, and would also promote the use of best practices.

2. The present report accordingly summarizes the main developments in service statistics in various expert groups, describes progress with the creation of an intersecretariat working group on service statistics and incorporates a report on the Voorburg Group's development of its future agenda. Some upcoming services events are listed in the annex to the report.

II. Progress in selected projects concerning the measurement of services in the economy

3. In 2005 progress has continued apace on the coordinated revision and updating of the fundamental frameworks that underpin production of useful and comparable statistics on services. These include the updated *System of National Accounts*, 1993 (1993 SNA, Rev.1) and the revised *Balance of Payments Manual*, both planned to be published in 2008, and the International Standard Industry Classification of All Economic Activities (ISIC) and the Central Product Classification, to be revised in 2007. Because of their fundamental nature, these revisions will have knock-on effects on other manuals, for example, the *Manual on Statistics of International Trade in Services*,[1] which is to be revised by 2009, and the *Tourism Satellite Account: Recommended Methodological Framework*.[2]

System of National Accounts 1993 update

4. The Intersecretariat Working Group on National Accounts is responsible for leading the updating work on 1993 SNA, Rev.1. The Working Group is guided by an advisory expert group.

5. Issues which could impact on the measurement of services include:

- The treatment of non-financial assets and the revenue flows stemming from the leasing or right to use these assets, for example, software, copyrights on music and film, research and development
- Capitalization of research and development expenditure
- Capital services
- Originals and copies (for example, software)
- Goods for processing and merchanting
- Financial and insurance services
- Measurement of labour input
- ISIC aggregations for SNA data reporting
- Clarification of guidelines measuring non-market output.

6. Further information on the issues being considered for the SNA update and progress can be found at http://unstats.un.org/unsd/sna1993/issues.asp. The Intersecretariat Working Group on National Accounts plans to finalize methodological decisions of principle for the update in January-February 2006.

Balance of Payments Manual: revision issues

7. The revision of the fifth edition of the *Balance of Payments Manual* is being supervised by the International Monetary Fund (IMF), under the advice of the IMF Committee on Balance of Payments Statistics. IMF expects to finalize the proposed methodological revisions and complete a first draft of the revised manual by the end of 2006.

8. The Committee on the Balance of Payments Statistics is coordinating the revision closely with the Intersecretariat Working Group on National Accounts and a selection of other expert groups.

9. Issues related to the revision of the *Balance of Payments Manual* that could have an impact on the measurement and interpretation of international trade in services include: the borderline between trade in goods and trade in services (for example, for repairs); goods for processing; merchanting; original and copies; financial and insurance services; and adjustments to the classification of services (for example, on information technology) (more information on the revision process and related issues can be found at http://www.imf.org/external/np/sta/bop/bopman5.htm).

Classification revisions

10. The United Nations Expert Group on International Economic and Social Classifications and its technical subgroup finalized the structure for the fourth revision of ISIC (ISIC Rev.4 structure) in 2005 for submission to the Statistical Commission for approval.

11. The proposed ISIC Rev.4 structure has 21 top-level sections instead of the 17 contained in ISIC Rev.3. It has expanded detail on services considerably as part of a wider convergence process of the international and regional[3] industry or activity

classifications. A new information and communications section is included. The sections on professional, business support services, culture, recreation and human health services are expanded. Water supply is combined in a section with some environmental activities and services. Information and communications technology (ICT) aggregations have been facilitated.

12. At the request of national accountants, a proposed "top-top" level aggregation of 10 to 11 categories for the revision 4 of ISIC for SNA data reporting by activity has been developed by OECD in consultation with the United Nations Statistics Division and Eurostat. The proposal has been submitted to the SNA Advisory Expert Group for its approval in January 2006.

13. Proposals for the Central Product Classification version 2.0 were to be finalized by the end of 2005 for submission to Statistical Commission. Within the current broad structure of the Central Product Classification, ICT, information, health and other services products have been elaborated. The agriculture and transport structure has been revised and a number of tourism related products introduced. Research done for the North American Product Classification System (NAPCS) was an important input as was the worldwide consultation in 2005.

International trade in services

14. The Interagency Task Force on Statistics of International Trade in Services has agreed to update the *Manual on Statistics of International Trade in Services* by 2009 in order to maintain its usefulness and relevance for countries. Since the manual was first published in 2002, the update will be limited in scope, but it will include a review of the Extended Balance of Payments Statistics classification and more material on the measurement of Mode 4 supply of services, as well as changes made necessary by the revision to the *System of National Accounts* and other basic frameworks. The correspondence table between the Central Product Classification and the Extended Balance of Payments Statistics will be revised in line with the revisions and clarifications arising from the revision of the *System of National Accounts*, the *Balance of Payments Manual* and the Central Product Classification revision.

15. It is planned to conduct a worldwide consultation in the first half of 2006 on issues for the update of the *Manual on Statistics of International Trade in Services*.

16. The international agencies have an ongoing practice of sharing information on future technical assistance events and seminars on trade in services in order to avoid duplication and combine scarce resources, where appropriate.

17. The Statistics Division is developing a worldwide database for trade in services in cooperation with OECD to complement the United Nations Commodity Trade Statistics Database (Comtrade) merchandise trade database.

18. The Statistics Division's Technical Subgroup on the Movement of Persons has agreed on recommendations on the measurement of remittances in the balance of payments framework and is preparing improved guidelines for the measurement of Mode 4 trade in services (presence of natural persons). Further information can be found at http://unstats.un.org/unsd/tradeserv/default.htm. In June 2006, Eurostat will organize and host the first meeting of a city group on remittances, the purpose of which will be to draft a compilation guide for collecting data on remittances.

19. In early 2005, OECD published the *Handbook on Economic Globalization Indicators*, which provides guidance on the measurement of the internationalization of production, international mobility of resources and increasing interdependency of national economies. It sets out, inter alia, a framework for measuring activities of multinationals and foreign affiliates trade in goods and services.

20. In March 2005, the European Commission tabled a proposal for a regulation to compile data on inward and outward Foreign Affiliate Trade in Services statistics for States members of the European Union. The regulation is expected to be adopted by the European Parliament and the European Council in 2006. Data compilation will start soon thereafter. In parallel to the discussion of the regulation, Eurostat has drafted a manual for the compilation of this data once the regulation comes into effect. The work on the manual is expected to be finalized in early 2006.

21. The globalizing of production processes, including services production, "offshoring" and the perceived movement of both manufacturing and services jobs from developed to developing nations is an issue of interest to policymakers. Very little hard statistical information is available to inform political debate and decision-making. Eurostat has set up a task force, with its first meeting scheduled in early 2006, to explore the possibilities of measuring international sourcing by setting up a framework to utilize the existing information in a systematic way and by developing dedicated business surveys on an ad hoc basis. The OECD, at its special session on globalization in November 2005, also addressed this issue.

Short-term indicators for services

22. In response to the demand from central banks for more short-term statistics on services output and in order to fulfil the needs of bodies setting monetary policy, the OECD Short-term Economic Statistics Expert Group Task Force on services is preparing a manual on the Index of Services Production. A full draft was presented to the Voorburg Group in Helsinki in 2005. It is anticipated that the manual will be completed in 2006, subject to the approval of the OECD Statistics Committee.

Services producer price indices

23. The work on services prices and volumes is fundamental to achieving better measures of real services output and growth. Improving current practice and international comparability are high priorities as reflected by the range of recent and current activity on this theme on services producer price indices. They pose both conceptual and practical challenges.

24. In recent years, the Voorburg Group has been concentrating on basic methodological issues related to producer price indices for services. The heterogeneity of services has necessitated a service-by-service approach.

25. Outputs have been in the form of principal papers, representing the coordinated input of several countries on prices methodology for particular types of services in a standard format. At the 2005 meeting two principal papers on labour recruitment and courier services were reviewed. There was also discussion of alternative proposals for adding a quality dimension to the "principal paper" documentation process. One session focused on quality adjustment and fitness for use issues in the case of rental and leasing services, at which different quality perspectives from the point of view of both producers and consumers were

highlighted. Candidates for future principal papers are tested and discussed in mini-sessions.

26. The *Producer Price Index Manual* published by IMF in 2004 acknowledged that it (and the *Consumer Price Indices Manual* published by ILO in 2004) drew on the contents and conclusions of papers presented at meetings of the Voorburg Group. The manuals thus provided outlets through which the conclusions of the Group could more widely influence actual compilation methods. In particular, chapter 10 of the *Producer Price Index Manual*, on the "Treatment of Specific Products", included accounts relating to service industries based on papers issued by the Group.

27. It is worth noting other international work that does or may in future draw on the outputs of the Voorburg Group, for example the current work in progress on the manual on trade price indices under the aegis of IMF and the possible revision of the *Producer Price Index Manual* to incorporate work on services producer price index. Such matters are considered by the Intersecretariat Working Group on Price Statistics.

28. The joint OECD-Eurostat Task Force on Services Prices in Short-Term Statistics is preparing a guide for the compilation of producer price indices for services. The Task Force held its final meeting in November 2005 in Paris and is now finalizing the guide, which is to be published early in 2006. The guide is complementary to the *Producer Price Index Manual* and is aimed at harmonizing concepts and providing practical advice for index compilation in the service area. OECD also publishes responses to the annual questionnaire on country developments in work on producer price indices for services. The annual survey is under revision to bring it into line with the guide.

Productivity measurement

29. OECD, Fundación BBVA and Instituto Valenciano de Investigaciones Económicas jointly organized a workshop on productivity measurement in Madrid from 17 to 19 October 2005.

30. A growing number of statistical offices have recently become engaged in the measurement of productivity. This work is raising many new questions for measurement, including the possible approaches to developing measures of aggregate productivity performance, as well as issues related to productivity measurement in specific sectors of the economy, such as services. The workshop was organized to support statistical offices in this work, to take stock of work that is currently underway in OECD countries and to enhance the international comparability of productivity measures.

31. A compendium of productivity indicators was jointly published by the OECD Statistics Directorate and the Directorate for Science, Technology and Industry in 2005 to coincide with the workshop (see http://www.oecd.org/dataoecd/60/31/35529051.pdf).

Business statistics

32. With the increasing policy and analytical interest in services, their competitiveness and the effect they have on the competitiveness of the rest of the

economy, increased attention is being given to the basic infrastructure of business statistics.

33. Eurostat aims to put service statistics on a more equal footing with manufacturing statistics in both short-term and structural statistics. In particular, new European Parliament and European Council regulations are being prepared to:

- Increase the sectoral coverage and integrate enterprise groups into the business registers (registration of links between international enterprise groups is also planned);
- Revise the activity (European Classification, Rev.1.1) and product classifications (Classification of Products by Activity) in accordance with changes in the International Standard Industry Classification of All Economic Activities and the Central Product Classification;
- Revise Council Regulation 58/97 on structural business statistics in order to increase the coverage, level of detail and the number of variables and breakdowns available for services. Several projects are ongoing to develop more harmonized data on business services, business demography, foreign affiliates, demand for services, inter-enterprise relationships, factors affecting enterprise success and measurement of international sourcing.

34. The United Nations Statistics Division hosted the Expert Group Meeting on Industrial Statistics in New York, from 19 to 23 September 2005. The agenda of the meeting addressed the expansion of data collection to widen coverage of business activities, including services. The Expert Group confirmed the necessity for the revision of the *International Recommendations for Industrial Statistics*[4] and the manual *Index Numbers of Industrial Production* 1950[5]. It is planned to extend these to reflect the needs stemming from the revision of SNA 1993 and to include recommendations on measurement of service activities (the agenda and papers of the expert group meeting can be found at http://unstats.un.org/unsd/industry/meetings/eg2005/ac105-2.asp).

35. The newly established United Nations Expert Group on Distributive Trade Statistics held its first meeting in August 2005. The Group was established to assist the Statistics Division in the revision of the 1975 publication *International Recommendations on Statistics of the Distributive Trades and Services*[6] (more information can be found at http://unstats.un.org/unsd/newsletter/unsd_workshops/distributive_trade.htm).

36. In response to a strong analytical need for more internationally comparable business statistics, the OECD Statistics Directorate held an expert meeting on structural business statistics on 3 and 4 November 2005 to examine with national experts commonalities and differences in structural business statistics between European, North American and Asia-Pacific member countries. The meeting also discussed registers, enterprise demography, statistics by size class, coverage, definition of variables and firm-level microdata. The next meeting of the group will be held in the autumn of 2006.

Research and development and innovation statistics

37. The OECD Working Party of National Experts on Science and Technology Indicators aims to improve the methodology for the collection of internationally

comparable data for measuring the input, output, diffusion and impact of science and technology.

38. The third edition of the joint OECD/Eurostat "Oslo Manual" on measuring innovation has now been released. This latest edition extends the concept of innovation beyond technological innovation to better reflect innovation in services by also including marketing and organizational innovation as well as linkages in the innovation process. The concepts defined in the revised Oslo Manual will be progressively implemented in national innovation surveys as well as in Eurostat's next Community innovation survey.

39. A harmonized Eurostat/OECD questionnaire on research and development statistics has been approved by the OECD Working Party of National Experts on Science and Technology Indicators and a joint data collection exercise was launched in November 2005, including improved coverage of research and development in service sectors.

40. Following the decision to change the treatment of research and development in the SNA from a current expense to a capitalized investment, the OECD Working Party of National Experts on Science and Technology Indicators is working with national accountants to adapt the methodology used in the Frascati Manual (2002) to the updated SNA concepts and is also working to develop better measures of research and development internationalization.

Sectoral issues

Financial services in the national accounts

41. The OECD task force on financial services in the national accounts has submitted recommendations for the January 2006 meeting of the Advisory Expert Group on SNA to improve the definition of the output of financial services and the price-volume split of financial and insurance services in order to obtain a better measurement of these services in terms of current and constant prices.

42. A task force convened by IMF and the United States Bureau of Economic Analysis submitted recommendations for the January 2006 meeting of the Advisory Expert Group proposing to explicitly recognize the output of unfunded employers' pension schemes and to record flows and stocks of all defined benefit pension schemes in accordance with actuarial practices.

Tourism statistics

43. At its February 2005 meeting, the Interagency Coordination Group on Tourism Statistics considered proposals to update the *Tourism Satellite Account: Recommended Methodological Framework*,[2] and the 1993 United Nations/World Tourism Organization recommendations on tourism statistics. It also developed a number of proposals for the revision of the *Balance of Payments Manual*, the International Standard Industry Classification of All Economic Activities and the Central Product Classification in order to increase harmonization of concepts between these frameworks and tourism statistics and to make them more helpful for the collection of tourism statistics.

ICT sector statistics

44. The OECD Working Party on Indicators of the Information Society is reviewing the definitions of the ICT sector, as well as ICT goods and services products in the light of the revision of the International Standard Industry Classification of All Economic Activities, the Central Product Classification and the Harmonized System (2007). Proposals are being prepared for the May 2006 meeting of the Working Party.

Health accounts

45. OECD, Eurostat and the World Health Organization (WHO) have laid the groundwork for a joint strategy for the collection of health expenditure data based on the System of Health Accounts. A document on practical working arrangements for cooperation between OECD, Eurostat and WHO and a proposal for a joint questionnaire on the System of Health Accounts have been prepared. The content of the questionnaire and related guidelines, finalized in the autumn of 2005, take into consideration the results of discussions at the OECD and Eurostat experts meetings.

46. As part of the proposed practical working arrangements, it is planned to send letters to the heads of the relevant national organizations (statistical offices and/or health ministries), emphasizing the importance of the implementation of the System of Health Accounts and the upcoming joint data collection on the subject: in particular, a joint Eurostat-OECD letter to inform the heads of national statistical offices and a joint WHO/OECD letter to inform Ministers of Health will be sent in the near future.

III. Intersecretariat working group on service statistics

47. Following the recommendation[7] of the Statistical Commission, in March 2005, to create an intersecretariat working group on service statistics, OECD wrote to international organizations in July 2005 inviting their participation in and their perception of the role of such a working group.

48. Five organizations have said that they wished to participate: the United Nations Statistics Division, Eurostat, ILO, the Interstate Statistical Committee of the Commonwealth of Independent States and OECD. The European Central Bank would also be prepared to attend a meeting to clarify terms of reference.

49. Of those declining to participate, most were supportive of the concept. Several wished to clarify the mandate and role of the group, especially to avoid duplication of work. The Statistics Division proposed that initially the intersecretariat working group would initially operate as a virtual group.

Concerns expressed included:

- Unclear objectives given for the proposed intersecretariat working group
- The theme "Service statistics" does not properly reflect the organization of statistics departments of international organizations, where people are organized by statistical topic (e.g. national accounts, balance of payments, trade, business statistics, prices, etc.), and thus it is not clear who would or should participate

- Services are now so pervasive throughout the economy that it may be more appropriate not to take a sectoral approach
- How can duplication be avoided?

Opportunities perceived included:

- There is a continuing political interest in services
- Service statistics need to be improved generally and there are a range of particularly difficult measurement problems associated with services
- The improvement of knowledge transfer in service statistics is in line with international trade, development, productivity and growth agendas, where there is a need for more countries to improve understanding of the actual and potential contribution of services to growth and development
- A chance for international organizations to combine resources in a cooperative effort and supervise the coordination work in this area.

A draft terms of reference for the intersecretariat working group has been circulated for consideration by the above-mentioned organizations.

IV. The Voorburg Group on Service Statistics: future agenda

50. The Voorburg Group met in Helsinki in September 2005, with a renewed mandate from the Statistical Commission. The agenda included producer price indices for services (see paras. 24 and 25 above); measuring turnover by product; index of services production; classifications of activity and product; and future strategy.

51. The Voorburg Group confirmed its objective, focus and scope and adopted a series of measures to develop the working agenda for the near future. The objective of the Voorburg Group is to establish an internationally comparable methodology for measuring the constant price outputs of the service industries.

Focus

52. It was agreed that the Group should not get actively involved in disseminating knowledge and best practices nor should it take the function of maintenance of the knowledge-base developed in the past. While these functions can be best exercised by international organizations, such as the Statistics Division or OECD, the implicit knowledge transfer through the exchanges of views during the annual meetings will remain a significant role of the Group. The focus of the Group shall essentially be one of developing concepts, methods and best practices in the area of services.

Scope

53. Given its objective, the scope of the agenda of the Group will remain focused on turnover, classification and prices. Since most of the work on classification is now completed, the next few meetings of the Group will work mainly on the identification of best practices in the development of the producer price indices of services. The Group will also re-examine its workplan on a regular basis in order to integrate new questions from national statistical offices and international organizations.

54. In reviewing its objective, focus and scope, the Group felt that it was essential to provide tangible results and recommendations on the conceptual and practical aspects of the development of service statistics to national statistical offices and international organizations. There is a need to better define the nature of the service that we are trying to measure with turnovers and prices. Given that the improvements of service statistics will shed light on issues of productivity and competitiveness, it was agreed that the measurement activities in prices could not be done in isolation from the measurement issues in turnover and classification. In fact, there is a need to integrate the national accounts perspective into the development work in these three areas.

Next steps

55. In order to advance development of the producer price indices and turnover of services, it was agreed that some changes had to be introduced to the workplan, its process and the format of the meeting.

56. First, it was decided to keep what had worked well in the past, for example, the mini-presentations and main paper format used in the sessions on producer price indices. Having mini-presentations in the first year helps prepare the main papers and some best practices in the second year. More structure must be provided to these sessions in order to better identify the various practices. In this context, a task force was established to:

(a) Develop and establish a more structured content improvement assessment framework, capitalizing on the work already done on quality measurement and quality assessment;

(b) Develop a pilot sectoral session on price integrating in the discussion views from the classification, turnover and national accounts perspectives for the next Voorburg meeting in 2006;

(c) Develop a workplan for the next few years with a tangible objective and timetable.

57. The task force, after reporting progress to the bureau of the Voorburg Group at the end of 2005, will provide a briefing to the Statistical Commission in 2006.

Notes

[1] ST/ESA/STAT/SER.M/86.

[2] United Nations publication, Sales No. E.01.XVII.9.

[3] For example, the European Classification (NACE), the North American Classification (NAICS) and the Australia-New Zealand Classification (ANZSIC).

[4] United Nations publication, Sales No. E.83.XVII.8.

[5] United Nations publication, Sales No. E.1950.XVII.4 (ST/STAT/SER.F/1).

[6] United Nations publication, Sales No. E.75.XVII.9 (ST/ESA/STAT/SER.M/57).

[7] *Official Records of the Economic and Social Council, 2005, Supplement No. 4* (E/2005/24), chap. III, para. 21.

Annex

Selected events in the field of service statistics in 2006

1. Interagency Task Force on Statistics of International Trade in Services meetings, 21 and 22 February 2006, New York, and 15 September, Paris.

2. Organization for Economic Cooperation and Development (OECD) Short-term Economic Statistics Expert Group Task Force on services meeting, Paris, 1 and 2 February 2005, and a one-day meeting at the end of June 2006.

3. Meeting of the Voorburg Group on service statistics, Wiesbaden, Germany, October 2006.

4. OECD-Eurostat meeting of experts in trade-in-service statistics, Paris, 12-14 September 2006.